

PROPERTY ASSESSMENT APPEAL BOARD
FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

PAAB Docket No. 14-91-0209

Parcel No. 63-400-13-0260

LTC Jonesboro, Inc.,

Appellant,

v.

Warren County Board of Review,

Appellee.

Introduction

This appeal came on for telephone hearing before the Property Assessment Appeal Board (PAAB) on June 29, 2015. Guy McCollum of McCollum Consulting in Fort Worth, Texas represented LTC Jonesboro, Inc. County Assessor Brian Arnold represented the Warren County Board of Review.

LTC Jonesboro, Inc. (Jonesboro) is the owner of commercial property located at 921 Sunset Drive, Norwalk, Iowa. The subject property is a 51-bed, 26-room nursing home constructed in 1975 and situated on a 3.17-acre site. The building has 15,202 square-feet of gross building area and has average construction quality (Grade 4). The structure is in normal condition and has 38% physical depreciation applied to its assessment. The property is also improved by 15,800 square-feet paving and a detached 576 square-foot garage.

The property's January 1, 2014, assessment was \$1,317,500, allocated as \$345,200 in land value and \$972,300 in improvement value. This was a change in value from the previous year making all grounds under Iowa Code section 441.37(1)(a)(1) available for protest. Jonesboro's protest to the Board of Review claimed property was assessed for more than authorized by law under section

441.37(1)(a)(1)(b). The Board of Review denied the protest. Jonesboro then appealed to this Board. It asserts the property's correct value is \$925,901.

Findings of Fact

LTC Jonesboro asserts its property is over assessed. Guy McCollum testified on its behalf. McCollum stated his company represents skilled nursing facilities and hybrids. LTC asserts the 2014 valuation for the subject property should be \$925,901. LTC Jonesboro submitted a cost analysis, income information, and other evidence to support its claim.

In his review of the subject's valuation, McCollum used MARSHALL SWIFT VALUATION SERVICE to value the subject property using the cost approach. (Ex. 3). The indicated value by this approach was \$925,901. McCollum determined a replacement cost new of the main structure of \$1,659,149, which is more than the assessor's replacement cost new using the IOWA REAL PROPERTY APPRAISAL MANUAL. McCollum then applied 65% total depreciation to its replacement cost, resulting in a depreciated improvement value of \$580,701. He was unable to explain how the total depreciation was calculated and allocated between obsolescence and physical depreciation.

According to McCollum, he ordinarily limits the maximum depreciation to 65% for all properties. The Assessor applied the 38% depreciation to his replacement cost, and 60% to the yard improvements, resulting in a depreciated total improvement value of \$953,600. Both parties used the same \$345,200 land value and the differences in value appear to be attributed to the differences in cost new and depreciation.

McCollum also completed an income approach using only one year of revenue and expenses. (Ex. 4 & 5). He identified the 2013 operating statement as abnormally low compared to other years and declined to rely on this approach. He testified he preferred to use a three-year or five-year stabilized operating statement, which would have minimized the distorting effect of the 2013 income loss. Apparently, he believed a stabilized statement would not be allowed in the appeal, although they are routinely submitted and considered by boards of review and by this Board.

On cross-examination, Assessor Brian Arnold asked McCollum to review a news article reporting the subject property was evacuated in late 2013 and closed the first few months of 2014 because of a flood from a broken water pipe. (Ex. H). Relocation of the residents, building repairs, and lost revenue likely resulted in the income loss reported in 2013. McCollum appeared to be unaware of this information and had not considered it in his analysis.

LTC Jonesboro submitted an article on valuing nursing homes, VALUATION OF REAL ESTATE WITHIN SENIOR LIVING FACILITIES, SENIORS HOUSING & CARE JOURNAL, 2011 Vol 19 Number 1, p 23. The purpose of the article is to suggest that most senior housing properties are sold as going concerns and the sales prices include tangible and intangible personal property; additionally residents were already occupying the facility. The article further suggests that the sales approach alone may be difficult to complete and the income approach likewise may be unreliable. Thus, the article suggests the cost approach should be considered along with data from these other approaches.

It would appear LTC Jonesboro suggests the current assessment may be something other than the fee simple value of the subject property because sales may include business value and intangibles. However, Arnold testified when examining sales of other nursing home properties, he reviewed the Declarations of Value (DOVs) filed with the State. He correctly notes that if any sales prices include items that are not real property, those items and their value should be specifically identified on the DOVs. This is evident on the DOVs the Board of Review submitted. (Exs. I-P).

Arnold identified six 2011-2014 Iowa nursing homes sales to support his assessment. (Exs. I – Q). While Arnold did not develop a sales comparison approach to value by adjusting these sales, he believes the unadjusted sale prices are relevant because their age and size are similar to the subject. He believes two in the nearby metropolitan area in South Des Moines and Northeast Des Moines, which sold for roughly \$24,500 to \$28,700 per-bed, support the subject assessment of \$25,833 per bed.

Address	GBA	Grade	Year Built	Beds	Sale Date	Sale Price	\$/Bed
Subject	15,202	4+00	1975	51	N/A	N/A	N/A
Charles City	29,116	5+00	1958	61	2014	\$2,151,000	\$35,262
Pocahontas	25,054	4+00	1971	55	2012	\$940,000	\$17,091
Webster City	27,071	4+00	1963	84	2012	\$2,079,088	\$24,751
Grinnell	23,456	5+00	1965	60	2014	\$2,625,000	\$43,750
South Des Moines	25,412	4+00	1962	99	2011	\$2,843,800	\$28,725
Northeast Des Moines	18,801	4+00	1978	64	2011	\$1,569,000	\$24,516

As previously noted, Arnold was able to review the DOVs for these sales and exclude personal property value from the total sales price.

Regarding the subject property's current assessment, Arnold testified he eliminated a 30% functional obsolescence adjustment, which was previously applied to the building, based on local market evidence. No evidence was offered to support or refute the need for the adjustment.

He also provided information on a sale in Norwalk and one in Muscatine; however, these facilities combined both newer assisted living and older nursing home components. They had traditional nursing home beds, as well as, apartments for the assisted living residents. No evidence was provided to reliably allocate value between the two components, the sales were not adjusted, and the properties were not similar to the subject. For these reasons, we do not rely on them.

Conclusions of Law

PAAB has jurisdiction of this matter under Iowa Code sections 421.1A and 441.37A (2015). PAAB is an agency and the provisions of the Administrative Procedure Act apply to it. Iowa Code § 17A.2(1). This appeal is a contested case. § 441.37A(1)(b). PAAB considers only those grounds presented to or considered by the Board of Review, but determines anew all questions arising before the Board of Review related to the liability of the property to assessment or the assessed amount. §§ 441.37A(1)(a-b). New or additional evidence may be introduced, and PAAB considers the record as a

whole and all of the evidence regardless of who introduced it. § 441.37A(3)(a); see also *Hy-Vee, Inc. v. Employment Appeal Bd.*, 710 N.W.2d 1, 3 (Iowa 2005). There is no presumption that the assessed value is correct. § 441.37A(3)(a). However, the taxpayer has the burden of proof. § 441.21(3). This burden may be shifted; but even if it is not, the taxpayer may still prevail based on a preponderance of the evidence. *Id.*; *Richards v. Hardin County Bd. of Review*, 393 N.W.2d 148, 151 (Iowa 1986).

In Iowa, property is to be valued at its actual value. Iowa Code § 441.21(1)(a). Actual value is the property's fair and reasonable market value. § 441.21(1)(b). Market value essentially is defined as the value established in an arm's-length sale of the property. *Id.* Sale prices of the property or comparable properties in normal transactions are to be considered in arriving at market value. *Id.* If sales are not available to determine market value then "other factors," such as income and/or cost, may be considered. § 441.21(2).

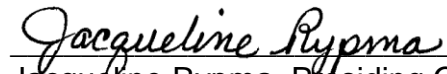
In an appeal alleging the property is assessed for more than the value authorized by law under Iowa Code section 441.37(1)(a)(1)(b), the taxpayer must show: 1) the assessment is excessive and 2) the subject property's correct value. *Boekeloo v. Bd. of Review of the City of Clinton*, 529 N.W.2d 275, 277 (Iowa 1995). LTC Jonesboro offered an estimate of value based on the cost approach and a limited analysis of the subject property's actual income; however, McCollum was unable to explain the depreciation applied in it. Conversely, the cost-based assessment was reinforced by evidence of recent nursing home sales. While Arnold's sale prices were also unadjusted, the properties were comparable to the subject and the sale prices, excluding personal property and other intangibles, generally supported the assessment. Ultimately, LTC Jonesboro's evidence did not establish the subject property was over assessed.

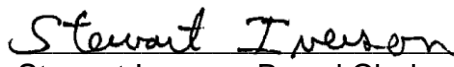
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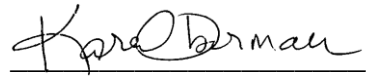
IT IS THEREFORE ORDERED that the Warren County Board of Review's action is affirmed and LTC Jonesboro, Inc.'s property assessment is \$1,317,500 as of January 1, 2014.

This Order shall be considered final agency action for the purposes of Iowa Code Chapter 17A (2015). Any application for reconsideration or rehearing shall be filed with PAAB within 20 days of the date of this Order and comply with the requirements of PAAB administrative rules. Such application will stay the period for filing a judicial review action. Any judicial action challenging this Order shall be filed in the district court where the property is located within 20 days of the date of this Order and comply with the requirements of Iowa Code sections 441.38; 441.38B, 441.39; and Chapter 17A.

Dated this 26th day of August, 2015.


Jacqueline Rypma, Presiding Officer


Stewart Iverson, Board Chair


Karen Oberman, Board Member

Copies to:

Guy McCollum

John Criswell

Brian Arnold